

2008 Plan 65 Budget Narrative

The following provides a breakdown of calendar year 2008 administrative expenses by natural expense account for the Plan 65 products. These expenses are extrapolated to a per contract per month charge that is used in the development of the Plan 65 direct rates. This methodology provides the direct Plan 65 subscriber with the benefit of lower operating expense charges since they are afforded economies of scale that occur with the group business. The following narrative explains the Plan 65 administrative expenses by specific account.

Salaries & Wages/Temporary Services

Salaries, bonuses, overtime pay and outside temporary services are included in this natural expense account. The following departments are included in the 2008 Plan 65 budget with the allocation based on the nature of the work performed:

Customer and Provider Services (6.9 FTEs, salaries \$297,680) staff responds to questions from members and providers regarding benefit coverage, payment status, eligibility and various other issues. In 2007, there was an overall increase of 23FTEs within the Customer and Provider Services area to support the increase of incoming calls.

Individual Sales (2.9 FTEs, salaries \$148,577) sells the Plan 65 product to the non-group market. Staff members are responsible for answering all inbound calls as they relate to the Plan 65 product. This department is responsible for prospecting and contacting interested Rhode Island residents as they attain age 65 and other residents who inquire about the product. The process includes a thorough explanation of covered services, plan limitations, enrollment guidelines and benefits associated with the Plan 65 product. Department representatives also conduct educational meetings to promote general awareness of the product.

Marketing (0.7 FTEs, salaries \$55,752) includes Product Marketing and support staff. The Product Marketing department is responsible for the development, implementation and ongoing management of the Plan 65 products and accounts for \$41,015 of the projected allocation. The following activities are performed within this unit:

- development and implementation of features and/or services that will make the product more competitive.
- development and maintenance of all Plan 65 sales and member materials.
- regular briefings of internal operating areas on Plan 65 benefits and administration.
- investigating and resolving any service and/or operational issues related to benefit design.

The remaining \$14,737 reflects the salaries for staff that support the Individual Sales and Product Marketing departments.

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Senior Accounts/Forecasting (1.5 FTEs, salaries \$111,648) is responsible for the computation of rates and supporting schedules for the Plan 65 rate filing as well as ongoing monitoring of trends and rate adequacies. The department also reviews large Plan 65 claims to ensure that payments are compliant with product policies.

Statistical (0.2 FTEs, salaries \$17,283) is responsible for the pricing of product benefits, providing detailed enrollment analysis as well as trend analysis and other studies.

The remaining **Actuarial/Underwriting** departments (0.2 FTEs, salaries \$9,805) include Plan 65's allocation of the cost related to forecasting, development of claims reserves, regulatory reporting and rate filings.

Cash Receipts (1.4 FTEs, salaries \$54,797) processes the individual premium payments made by subscribers. The process includes opening the mail, scanning the remittance, depositing the checks and posting the payments to the subscriber's account.

The remaining departments in **Finance** (1.3 FTEs, salaries of \$97,544) are responsible for rate filing activities and day to day financial activities necessary to run the business. The rate filing activities include the development of operating expense budgets and responding to Attorney General data requests. Plan 65 is also allocated a share of day to day financial activities such as: Accounts Payable, Payroll, Corporate Accounting, etc.

Information Technology/Governance (1.5 FTE's, salaries \$158,850) encompasses the following functions:

- Project management oversees the assignments relating to Plan 65, and limits cost overruns for projects directly relating to Plan 65 and those indirectly benefiting Plan 65 (e.g. data center relocation, BCBSA mandates, other BCBSRI initiatives).
- Governance of the Perot outsourcing agreement relating to membership and claims processing functions for Plan 65, ensuring that members are enrolled accurately and timely and that claims are processed according to standards.
- Web site development and maintenance enhances the BCBSRI web site allowing Plan 65 members access to obtain information relating to specific health and wellness topics.

Communications Services (0.9 FTEs, salaries \$66,109) prepares Plan 65 benefit summaries, provider directories and various other corporate communications initiatives (e.g. Choices Magazine, Depression Manuals, Senior Health Brochures, etc.).

Quality Assurance & External Audits (0.3 FTEs, salaries \$16,465) performs claims audits, reports on numerous performance measures required by the Blue Cross Blue Shield Association, and coordinates activities for external audits. These audits ensure that Plan 65 members are enrolled on a timely basis and their claims are paid properly and timely.

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The **Legal** department (0.3 FTEs, salaries \$35,941) provides guidance on contracts, reviews subscriber agreements and works with outside counsel on Plan 65 rate filings and general litigation.

Human Resources (0.4 FTEs, salaries \$36,040) performs all employee recruitment and is responsible for administering compensation, benefits, and training for all employees. The work in this department impacts all employees who work on Plan 65 activities.

Staff time devoted to the transition **to a replacement claims system** (from LRSP) will allocate \$130,168 (1.6 FTEs) to Plan 65. This important system upgrade will benefit all products by providing a state of the art claims processing system.

Grievance & Appeals (0.3 FTEs, salaries \$15,974) responds to appeals from Plan 65 members (96 Plan 65 appeals were received in 2006.)

Office Services (0.5 FTEs, salaries \$25,638) is responsible for management of facilities, the internal print shop and mail delivery, benefiting those employees who work on Plan 65.

Internal Audit (0.2 FTEs, salaries \$12,010) is responsible for the review of BCBSRI internal controls, payment processes and systems audits.

Corporate Compliance (0.2 FTEs, salaries \$12,634) develops and enforces the corporate compliance program.

Expenses for **Corporate Executives, Legislative Affairs, Community Relations, Contracting, General Corporate Expenses, and Medical Management** are corporate in nature and are allocated to all product lines and market segments resulting in a charge to Plan 65 of \$153,222 (0.8 FTEs).

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The succeeding chart provides a comparison for the Full Time Equivalents allocated to Plan 65 with the total staff in each department.

| | Full Time Equivalents | |
|-------------------------------------|------------------------------|----------------|
| | Plan 65 | Total |
| Customer & Provider Services | 6.9 | 214.7 |
| Individual Sales | 2.9 | 16.0 |
| Marketing | 0.7 | 85.8 |
| Senior Accounts/Forecasting | 1.5 | 9.3 |
| Statistical | 0.2 | 26.0 |
| Actuarial/Underwriting | 0.2 | 46.2 |
| Cash Receipts | 1.4 | 14.5 |
| Finance | 1.3 | 56.3 |
| Information Technology/Governance | 1.5 | 81.2 |
| Communications Services | 0.9 | 28.2 |
| Quality Assurance & External Audits | 0.3 | 21.0 |
| Legal | 0.3 | 11.4 |
| Human Resources | 0.4 | 19.8 |
| Claims system replacement | 1.6 | 29.3 |
| Grievance & Appeals | 0.3 | 26.0 |
| Office Services | 0.5 | 20.9 |
| Internal Audit | 0.2 | 10.0 |
| Corporate Compliance | 0.2 | 7.0 |
| All Other | 0.8 | 334.2 |
| TOTAL | 22.1 | 1,057.8 |

Fringe Benefits

Fringe benefits are generally charged to cost centers based on the costs incurred at the employee level. These costs are then allocated to product lines in the same manner as the employees' salaries and wages. The specific components of fringe benefits are outlined below.

Payroll Taxes

FICA, Federal & State Unemployment, Medicare taxes paid on salaries and wages referenced above. For the purposes of this computation, we assumed that the tax rates will remain constant and maximums will move in relation to the salary increases.

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Health Insurance

The Health Insurance expense includes:

- Comprehensive group health coverage for individual and families
- Group Dental coverage with an annual \$1,200 maximum
- Basic Life Insurance & Accidental Death & Dismemberment
- Post Retirement Medical Benefits for employees that were hired prior to January 1, 1992 and retire after age 55 after attaining minimum service requirements.

Pension

Expenses within this category include:

- Regular Pension - The Retirement Plan is a Defined Benefit Plan which provides a monthly retirement benefit to eligible participants at normal retirement, age 65 (full benefit) or at early retirement, age 55 to 64 (actuarially reduced benefit.) Vesting occurs in the Retirement Plan upon the completion of five plan years of service. Expenses are calculated in accordance with Financial Accounting Standard (FAS) #87.
- Supplemental Executive Retirement Plan (SERP) provides benefits to employees (vice presidents and above) who have been designated as eligible by the Board of Directors vote. Vesting requirements of at least 5 years at age 55 or 15 years of services at any age prior to 55 are necessary prior to payment of any benefits. Expenses are determined in accordance with FAS #87.

Fringe -Other

This category of expense includes:

- Money Match Employee Savings Plan. The expenses associated with this 401k program reflect the employer match costs (50% on employee pre tax contributions up to 6%) and the costs associated with Massachusetts Mutual's administration of the program.
- Employee Long Term Disability Insurance provides the employee with partial disability insurance in the event of total disability.
- Workers Compensation Insurance.

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Outside Services

Outside Services are external personnel (excluding lawyers) engaged to provide expertise or services that are not available from the existing staff, or to handle project work. The projected 2008 allocation to Plan 65 is \$456,062. Major expense inclusions are noted below:

- **Initiatives Management Office** – BCBSRI establishes a budget each year for work on mandated or high priority corporate projects many of which will benefit all product lines. The projected allocation for Plan 65 is \$170,378.
- **State of Rhode Island Fees** – Attorney General Fees associated with Plan 65 filing are projected to be \$139,906.
- **Statistical/Actuarial/Underwriting** – Outside professional services (Milliman USA) are utilized to assist in the additional work regarding rate filings, and trend analyses and the direct 2008 impact on Plan 65 is \$41,725. Expenses incurred in support of rate filings are charged directly to Plan 65.
- **Communications Services** – The cost reflects the services provided by Rivers Doyle & Walsh (\$25,346) for Public Relations and Advertising.
- **Product Marketing** – Outside services are utilized to conduct market research and customer satisfaction surveys (including Plan 65 members) resulting in a projected allocation of \$23,279. These expenses are allocated consistent with the overall work performed within the department.
- **System Replacement** – Outside professional services are utilized to assist with the system replacement initiative. The projected 2008 impact on Plan 65 is \$16,688. The primary methods of allocation for System Replacement are paid claims.
- **Human Resources** – Outside professional services are used for a variety of activities including compensation benchmarking, pension valuation, employee training and support of Human Resource systems. The allocation is estimated to be \$10,407. The primary method of allocation for Human Resources is Full-Time Equivalents (FTEs).
- The remaining \$28,333 is spread across numerous operating departments and is used to support the operations in these areas.

Legal

Projected costs for outside legal services are \$99,161 including \$77,240 for costs associated with the rate filing and related work. The budget also includes \$21,921 for Plan 65's share of corporate litigation and other legal services. The rate filing expenses are charged directly to Plan 65 and the remainder of the expenses is corporate in nature, and is allocated based on a total cost ratio.

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Facilities & Occupancy

This expense category includes all costs related to the operation of the facilities occupied by BCBSRI employees. The \$194,590 allocation reflects 2.8% of the anticipated facilities costs for the corporation and is related to the departments whose activities allocate to Plan 65 as mentioned in the Salaries and Wages portion of this exhibit as well as the computer operations area.

Equipment

The allocation of equipment expenses are expected to be \$69,647 for Plan 65 in 2008.

Depreciation, property taxes, rental and maintenance associated with employee workstations accounts for \$56,473 of the budget. The budget also includes \$13,174 for the purchase of equipment costing less than \$1,500 per item, by the departments listed in the Salaries and Wages section.

Software

Software charges are anticipated to be \$200,581 for Plan 65. The majority of this expense is associated with depreciation, property taxes, and maintenance agreements for Information Technology (IT) systems (\$92,204), the Customer Relationship Management system (\$45,833), and expenses associate with Business Continuity (\$28,802).

The IT systems include E-business (BCBSRI.com), HIPAA and license agreements used by the Data Center. The BCBSRI website is accessible by Plan 65 subscribers to review benefits, claims activity and wellness tips.

The Customer Relationship Management system is used by Customer Service staff to assist subscribers with questions from members and providers regarding benefit coverage, payment status and various other issues.

The expenses associated with Business Continuity are allocated to all product lines. Business Continuity software will advance the current Disaster Recovery capability in the event critical business areas are disrupted. The portion applicable to Plan 65 is \$28,802.

The remaining \$33,752 is for software packages, depreciation and property taxes associated with departments whose activities impact Plan 65 (e.g. Financial Systems, compliance software, etc.).

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Insurance

The Insurance account includes the following coverages as a prudent risk strategy:

- Directors & Officers
- e- Business Liability
- Employment Practices Liability
- Errors & Omission
- Managed Care Liability

The Plan 65 allocation of these corporate expenses is anticipated to be \$32,696.

Travel

Travel expenses (\$30,150) are allocated to product lines based on the reasons and benefits derived from the travel. Employee travel that is beneficial to the overall performance of the employee is allocated to product lines based on the allocation of salaries and wages for the employees department. Most travel falls into this category and includes educational conferences, training seminars on new systems and/or processes, and Blue Cross Blue Shield Association events.

If the travel benefits a specific product line or market segment other than Plan 65 then the travel will be charged to that product/segment directly and there will be no charge to Plan 65.

Printing, Stationery and Office Supplies

The \$57,685 printing budget for Plan 65 includes materials such as welcome letters, applications and benefit summaries.

The allocation of Office Supplies to Plan 65 (\$7,431) is directly related to the activities of the departments mentioned in the salaries and wages narrative. This category of expense includes toner cartridges for laser printers, paper, pens, folders, etc.

Postage

The \$161,698 expense reflects the allocation of postage paid to mail the following items to Plan 65 subscribers:

- enrollment kits,
- Rx discount cards,
- provider directories,
- premium billings, and
- claims correspondence.

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Telephone

Telephone expenses are expected to be \$83,078 in 2008 and include the following:

- line charges for Customer/Provider Service,
- data lines and web hosting fees for BCBSRI.com, and
- line charges necessary for all other employees to conduct business.

Advertising and Public Relations

Advertising is used to build brand awareness and understanding, sell products and services and provide important information to the community. BCBSRI uses a number of diverse media to communicate consistent messages regarding our competitive differentials, superior services and product offerings, and our brand position.

Plan 65 is charged directly for messages that pertain only to this product and is allocated a pro rata share of the costs of general advertising resulting in a total expense of \$73,705. No cost is allocated to Plan 65 for advertisements that relate specifically to any other products (e.g. Healthmate, Blue Cross Dental).

Corporate & Civic Dues

Corporate and Civic Dues add \$27,132 to the 2008 expense budget and are divided between two sub-categories: Dues and Contributions.

Plan 65 will be charged \$27,095 for Dues expense in 2008 with \$25,112 of this amount for corporate dues assessed by the Blue Cross Blue Shield Association. The Association calculates the dues each plan must pay based on the number of contracts and revenue that plan has. Plan 65 is allocated its share of these expenses based on a percentage of revenue. The remaining \$1,983 is for corporate or professional dues which are allocated based on the departmental activities as mentioned in the salaries and wages section of this exhibit.

Charitable contributions represent the remaining \$37. BCBSRI provides contributions to various causes that are in alignment with our mission and these organizations are dedicated to improving the health and quality of life of all Rhode Island residents.

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Vendor Fees

Vendor Fees contribute \$2,455,648 to the 2008 expense budget and are divided among three sub-categories: Perot Systems Corporation, Business Continuity, and the Health & Wellness Institute.

Perot

Blue Cross has outsourced the following functions to Perot Systems Corporation (Perot) with a cost of \$2,359,470 to Plan 65:

- \$1,082,112 - Data Center Operations.
- \$523,531 - Application Development and Maintenance.
- \$302,477 - Claims Processing including Claims Disbursements.
- \$174,382 - Membership Services.
- \$146,421 - Network & Telecommunication Services.
- \$99,580 – Data Center Relocation.
- \$30,967 - Desk Side Services.

Data Center Operations (\$1,082,112) – Provides services necessary for the operation, administration, management and support of all, mainframe, printing and mailing applications. This process includes, but is not limited to:

- performing master console functions, including automation, centralization and consolidation of console functions and use of automation tools,
- managing, maintaining, monitoring, and controlling scheduled and unscheduled on-line batch processing,
- completing BCBSRI-defined processing and backups in correct sequence and within the time periods designated by BCBSRI,
- perform load balancing and where applicable perform as much scheduled batch work with automated tools,
- monitoring, verifying, and making appropriate adjustments to support proper executions of applications,
- identifying job and schedule dependencies, creating and maintaining job information dependencies on the master scheduling database, and prioritizing/scheduling batch jobs,
- supporting, maintaining and coordinating all on-line print/imaging/insertion activities,
- preparing reports for distribution and distributing them,
- developing, maintaining, ordering and storing print/image/insertion output forms libraries, inventories, and supplies,
- coordinating with external print/image/insertion third party vendors, and coordinating ad hoc mailing requests in the same manner as mail insertion services.

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- Assure that midrange servers are kept in working order, and that procedures are developed with reasonably adequate controls and audit trails.
- schedule, coordinate, and oversee all activities requiring the physical presence of third party vendors.
- coordinate rollouts and upgrades of equipment and applications, including responsibility for coordinating any testing, scheduling and installation of such equipment or application.
- manage Direct Access Storage Devices (DASD) by monitoring and controlling storage performance, assigning and initializing DASD volumes, determining data set and volume placement, and setting and maintaining DASD resource efficiency/standards.
- provide performance monitoring, system performance tuning, and make recommendations based on system performance review.
- monitor system utilization and capacity and advise BCBSRI of the need for additional capacity.
- provide daily monitoring and support for all servers, including, but not limited to: loading operating system software, installing back-up software and maintaining backups, performing restoration of data upon request, providing systems level support to the Application Development and Maintenance (ADM) team, providing data storage management, implementing and adhering to change control procedures, and administering clustered servers on different hardware platforms.

The primary method of allocation for Data Center Operations is machine utilization.

Applications Development & Maintenance (\$523,531) – Provide programming support for all systems applications used by Blue Cross & Blue Shield of Rhode Island. Plan 65 is charged directly for programming efforts that are specifically related to Plan 65 and the program is charged a pro rata share for generic applications (e.g. LRSP maintenance, Financial Systems, etc.). Due to the age of the LRSP system, significant work effort is required to maintain the system.

Claims Processing (\$302,477) – Perot is responsible for all aspects of Plan 65 Claims Administration including Claims Receipt and Imaging, Claims Entry, Suspense Relief, and Correspondence and Adjustment processing. The primary method of allocation is a direct charge to Plan 65.

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Membership Services (\$174,382) – Perot is responsible for all Plan 65 Membership functions and is required to:

- mail notification to BCBSRI members reaching age 65 to inform them of the health insurance options available to them,
- add new Plan 65 members to our membership files and update any membership changes to existing members,
- issue ID cards and Welcome Kits to subscribers,
- develop and mail premium bills.

The primary method of allocation for Membership Services is member months.

Network & Telecommunication Services (\$146,421)

- Manage the Wide Area Network (WAN) and Local Area Network (LAN) at BCBSRI sites.
- Perform the design, installation, termination, maintenance, and documentation of all intra-building copper and fiber optic cabling for Ethernet, FDDI, SONET, ATM and WAN environments.
- Install and maintain WAN connections and upgrades.
- Monitor WAN and leveraged LAN bandwidth, report on Internet access and usage, and maintain adequate Internet access bandwidth in accordance with business needs.
- Support all BCBSRI internal and external audits for regulatory or business function purposes.
- Perform all functions required in order to support telecommunication services of the BCBSRI user community (order, install, remove, upgrade, replace, manage, and maintain equipment and software).

The primary method of allocation for Network & Telecommunication Services is Full-Time Equivalents (FTEs).

Data Center Relocation (\$99,580)

BCBSRI is moving the test and development environments to an alternate location as part of our disaster recovery program.

Desk Side Services (\$30,967)

- Perform maintenance on desk side equipment and software as necessary.
- Order, build and deploy desk side equipment as requested by BCBSRI users.
- Provide break-fix field service to all BCBSRI equipment.
- Improve the efficiency and reliability of desk side equipment. This process shall include correction of all desk side equipment problems that require software and/or desk side maintenance, switching devices, and encryption/security devices.
- Recommend solutions and implement mutually agreed upon processes and procedures to optimize the overall infrastructure.

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- Provide Help Desk services including: providing a single point of contact for reported problems, questions or requests. Provide first call problem resolution and route problems to the proper technical area.

The primary method of allocation for Desk Side Services is Full-Time Equivalents (FTEs).

Business Continuity (\$61,192)

Blue Cross has invested in enhancing existing disaster recovery capabilities and is developing a comprehensive, long-term Business Continuity program that mitigates risk of disruption of critical business areas in the event of a disaster. The primary method of allocation for Business Continuity is Total Cost Ratio.

Health & Wellness

Blue Cross has contracted with the Health & Wellness Institute to purchase services at a cost of \$34,986 to Plan 65. The Health & Wellness Institute provides programs, such as Weight Watchers, smoking cessation, blood pressure and cholesterol screening, to Blue Cross members both in state and out of state. The primary method of allocation for Health & Wellness is membership. Members access these services through the Health & Wellness van and Senior Center visits.

Other

Payments to Medicare carriers and intermediaries for electronic tapes that contain the Medicare claims processing information for Plan 65 subscribers accounts for \$402,553 of the budget. These tapes allow for more efficient processing of Plan 65 claims.

Employee education and other miscellaneous items account for the remaining \$29,505. These expenses are allocated to Plan 65 based on the department activities as noted in the salaries and wages narrative.

HIPAA

The Plan 65 share of the cost of complying with federally regulated guidelines for the privacy, security, and transaction code sets is estimated at \$22,739. The primary method of allocation for HIPAA is total cost ratio.

Change in Claims Handling

The estimated liability to process outstanding Plan 65 claims is expected to increase by \$29,000 in 2008. The expectation is the increasing claims trend will result in more claims outstanding at year-end.

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Non-recurring Projects

The budget provides a placeholder of \$89,965 for Plan 65 system enhancements above routine maintenance (e.g. Plan 65 Age-In).